

REPORT OF EXAMINATION
OF THE
LUSO-AMERICAN LIFE INSURANCE
SOCIETY

AS OF
JUNE 30, 2010

Participating State
and Zone:

California

Filed November 15, 2011

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San Francisco, California
July 22, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

LUSO-AMERICAN LIFE INSURANCE SOCIETY

(also referred to as the Society) at its home office located at 7080 Donlon Way, Dublin, California 94568.

SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2005. This examination covers the period from January 1, 2006 through June 30, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination

to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Society, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Society were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Society's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions and insurance plans; loss experience; statutory deposits; growth of society; business in force by states; and sales and advertising.

SOCIETY HISTORY

Effective, December 31, 2007, the Society merged with the Sociedade Portuguesa Rainha Santa Isabel (SPRSI). The Society received approval from the California Department of Insurance (CDI) on January 9, 2008.

MANAGEMENT AND CONTROL

The Supreme and governing body of the Society is composed of delegates as follows: (1) officers and directors of the Society, (2) delegates from the Luso-American Fraternal Federation the Portuguese Continental Union and the Sociedade Portuguesa Rainha Santa Isabel (intermediate fraternal divisions), and (3) others that may be appointed or elected, with the privilege of the floor but no right to vote.

The three intermediate fraternal divisions of the Society, known as the Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel, are entitled to send one delegate, to the biennial meeting of the Society, for each 400-adult benefit members. In addition, there shall be no more than one-third of the number of delegates from each fraternal division elected as alternate-delegates.

The board of directors, which consists of members elected at the biennial meeting, manages and controls the affairs and business of the Society by setting policy and making the rules and regulations consistent with the bylaws and the laws of the State of California. The bylaws provide that the board of directors is allowed to set the number of elected directors through resolution. In 2008, the board decided that the number of elected directors shall be fifteen. The term of office of the elected directors shall be six years; approximately, one-half of the directors are up for election every three years at the triennial convention. There was one vacant board member position as of December 31, 2010. The officers are elected by the board of directors for a term to be determined by the board.

Officers and directors of the Luso-American Fraternal Federation are elected at their respective annual conventions. Each subordinate council of the Luso-American Fraternal Federation, the lodge of the Portuguese Continental Union and the Sociedade Portuguesa Rainha Santa Isabel are entitled to send one delegate for each 100-adult benefit members. Directors and officers of the Society serving as of June 30, 2010 were as follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
Carlos A. S. Amaral Hayward, California	Owner Amaral Upholstery & Fields Fabrics
Jose M. Da Costa Warren, Rhode Island	Retired
Jose Da Silva Mineola, New York	Retired

Board of Directors – cont.

Name and Residence

Principal Business Affiliations

Hermano De Melo
Winchester, Massachusetts

Area Manager
Sanitronics

John M. Dias
Newark, California

Executive Director of Operations &
Risk Management
Cornerstone Staffing Solutions, Inc.

Narcie J. Ferreira
Rancho Cucamonga, California

Owner
Law offices of Ferreira and
Associates

Edite E. Furtado
Quincy, Massachusetts

Consultant
CPSS Consulting, LLC

Joe M. Machado
Hayward, California

Owner and General Contractor
J. Machado, Inc.

Tony E. Martins
Artesia, California

Owner
Martins Brothers General Contractors

Michelle M. Moreira
Somerville, Massachusetts

Attorney
Law offices of Michelle Machado
Moreira, P.C.

Joan Peros *
Watsonville, California

Insurance Agent
State Farm Insurance

Cecilia M. Souza
Stockton, California

Program Specialist
Manteca Unified School District

Joseph B. Vieira
San Jose, California

Owner
The Vieira Company

Linda M. Vieira
Santa Clara, California

Administrative/Technical
Coordinator
South Bay Endoscopy Center

* Resigned as of July 2010, replaced in August 2010 by Vicki M. Barrios

Principal Officers

<u>Name</u>	<u>Title</u>
Edite E. Furtado	President
J. Larry Soares	Executive Vice President and Chief Executive Officer
Joseph F. Resendes	Vice President and Secretary

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10 of the California Insurance Code. It is licensed to transact life and annuity business in California, Connecticut, Florida, Idaho, Massachusetts, Nevada, New Jersey, Pennsylvania, and Rhode Island. The Society has 136 active subordinate councils. One hundred subordinate councils are in California, three in Connecticut, one in Idaho, nineteen in Massachusetts, five in New Jersey, one in New York, three in Pennsylvania, and four in Rhode Island.

The Society has 3 full time agents and 35 part time agents. Commission rates range from 50% to 80% the first year and 5% to 7% from 2nd through the 10th year on life products.

All operating functions are performed at the Society's home office. It also maintains an office in Lexington, Massachusetts where administrative, fraternal, and sales and marketing functions are performed.

REINSURANCE

Assumed

The Society did not assume any reinsurance during the period under examination.

Ceded

As of June 30, 2010, the Society was party to twelve ceded reinsurance contracts. Eleven of the contracts were with Optimum RE Reinsurance Company and one was with Revios RE, both were California admitted insurers. The Society has multiple contracts with different retention and maximum limit amounts due to mergers that have occurred throughout the years.

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Excess of life, premium disability and double indemnity	Optimum RE Insurance Company	\$40,000	\$200,000
Ordinary life, premium waiver and accidental death	Optimum RE Insurance Company	\$40,000	\$105,000
Life and waiver of premium	Optimum RE Insurance Company	\$20,000	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$1,000,000 for waiver of premium (ages 45-70), \$0 for waiver of premium (over age 70)
Ordinary life and waiver of premium	Optimum RE Insurance Company	\$40,000	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 for waiver of premium (ages 45-70), \$0 for waiver of premium (over age 70)
Life and disability	Optimum RE Insurance Company	\$10,000	\$100,000
Mortgage decreasing term, Permalife, 10-year level term, Juvenile LT-18, 20 annual single premium whole life	Optimum RE Insurance Company	\$40,000	\$40,000
Life and waiver of premium	Optimum RE Insurance Company	\$40,000 (ages 0-70), \$0 (over age 70)	\$200,000

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Life	Optimum RE Insurance Company	\$25,000	\$4,000,000
Accidental death	Optimum RE Insurance Company	\$0	\$300,000
Life and waiver of premium	Optimum RE Insurance Company	\$25,000	\$100,000
Life	Optimum RE Insurance Company	\$40,000	\$160,000
Ordinary life, waiver of premium and accidental death	Revios RE	\$40,000	Face value of the policy

ACCOUNTS AND RECORDS

It was noted during the examination that there were posting errors to the interest maintenance reserve account and the asset valuation reserve account. In addition, the Society did not maintain adequate supporting documentation for certain balance sheet accounts. It is recommended that the Society carefully calculate and record the interest maintenance reserve and asset valuation reserve accounts in accordance with Statement of Statutory Accounting Principles (SSAP) No. 7. It is also recommended that the Society maintain adequate documentation to support all financial statement accounts.

Information Systems Controls

During the course of the examination, a review was made of the Society's general controls over its information systems. As a result of the review, recommendations were made to the Company to strengthen its controls in the following areas: system development life cycle, information technology governance, disaster recovery planning, data security, and logical access

security. The examination findings were presented to the Society along with recommendations to strengthen its controls. The Society should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of June 30, 2010

Summary of Operations and Surplus Account for the Year Ended June 30, 2010

Reconciliation of Surplus from December 31, 2005 through June 30, 2010

Statement of Financial Condition
as of June 30, 2010

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$60,055,079	\$ 941,313	\$59,113,766	(1)
Stocks:				
Preferred stocks	6,102,324	312,460	5,789,864	(1)
Common stocks	1,628,624		1,628,624	
Mortgage loans on real estate:				
First liens	10,639		10,639	
Real estate:				
Properties occupied by the company	1,720,329		1,720,329	
Properties held for the production of income	2,306,609		2,306,609	
Cash and short-term investments	2,660,982		2,660,982	
Contract loans	3,300,217		3,300,217	
Aggregate write-ins for invested assets	6,062	(13,884)	19,946	
Investment income due and accrued	960,764		960,764	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	209,734	209,734		
Deferred premiums, agents' balances and installments booked but deferred and not yet due	189,572		189,572	
Electronic data processing equipment and software	556,739	556,739		
Furniture and equipment	46,068	46,068		
Aggregate write-ins for other than invested assets	<u>24,481</u>	<u>24,481</u>		
Total assets	<u>\$79,778,223</u>	<u>\$2,076,911</u>	<u>\$77,701,312</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$68,569,609	(2)
Liability for deposit-type contracts			786,918	
Contract claims: Life			259,888	(3)
Premiums and annuity considerations received in advance			44,718	
Interest maintenance reserve			114,432	
General expenses due or accrued			13,479	
Unearned investment income			120,861	
Amounts withheld or retained by Society as agent or trustee			34,295	
Amounts held for fieldworkers' account			16,481	
Remittances and items not allocated			(13,639)	
Liability for benefits for employees and fieldworkers			3,691	
Miscellaneous liabilities:				
Asset valuation reserve			778,240	
Aggregate write-ins for liabilities			<u>79,885</u>	
Total liabilities			70,808,858	
Unassigned funds		<u>\$6,892,454</u>		
Total surplus			<u>6,892,454</u>	
Total liabilities, surplus and other funds			<u>\$77,701,312</u>	

Summary of Operations and Surplus Account
for the Quarter Ended June 30, 2010

Summary of Operations

Premiums and annuity considerations	\$3,136,904
Net investment income	2,311,799
Amortization of interest maintenance reserve	42,957
Aggregate write-ins for miscellaneous income	<u>1,368</u>
Total	<u>5,493,028</u>
Deduct:	
Death benefits	335,731
Matured endowments	12,774
Annuity benefits	878,807
Disability benefits and benefits under accident and health contracts including premiums waived	6,128
Surrender benefits and withdrawals for life contracts	443,826
Interest and adjustments on contract or deposit-type contract funds	39,244
Increase in aggregate reserves for life and accident and health contracts	2,420,948
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business)	88,539
General insurance expenses and fraternal expenses	1,031,218
Insurance taxes, licenses and fees	45,726
Aggregate write-ins for deductions	<u>(180)</u>
Total	<u>5,302,761</u>
Net gain from operations before realized capital gains	190,267
Net realized capital gains	<u>27,327</u>
Net income	<u>\$ 217,594</u>

Surplus Account

Surplus, December 31, 2009	\$6,957,751
Net income	217,594
Change in net unrealized capital losses	(162,757)
Change in nonadmitted assets	<u>(120,134)</u>
Net change in surplus for the year through June 30, 2010	<u>(65,297)</u>
Surplus, June 30, 2010	<u>\$6,892,454</u>

Reconciliation of Surplus
from December 31, 2005 through June 30, 2010

Surplus, December 31, 2005, per Examination \$ 8,709,073

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 801,734	\$
Change in net unrealized losses		1,068,533
Change in nonadmitted assets and related items		1,605,179
Change in asset valuation reserve	58,630	
Increase in surplus due to merger with SPRSI	220,525	
Aggregate write-ins for losses in surplus	<u> </u>	<u>223,796</u>
Total gains and losses in surplus	<u>\$1,080,889</u>	<u>\$2,897,508</u>

Decrease in surplus for the period under examination (1,816,619)

Surplus, June 30, 2010, per Examination \$ 6,892,454

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Stocks

The Society reported permanent impairments of bonds and preferred stocks as non-admitted assets instead of charging the loss to operations in accordance with Statement of Statutory Accounting Principles (SSAP) No. 5. It is recommended that the Society record permanent impairments in accordance with SSAP No. 5.

(2) Aggregate Reserve for Life Certificates and Contracts

The Society's reserves were reviewed by a California Department of Insurance actuary and were found to be reasonable.

(3) Contract Claims

The Society had claim files from its merger with Sociedade Portuguesa Rainha Santa Isabel and Portuguese Continental Union that were not included in the contract claims liability. No adjustment was made to the financial statements because the amount was below tolerable error. It is recommended that the Society accurately report all of its contract claims payable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 7): It is recommended that the Society carefully calculate and record the interest maintenance reserve and asset valuation reserve accounts in accordance with Statement of Statutory Accounting Principles (SSAP) No. 7. It is also recommended that the Society maintain adequate documentation to support all financial statement accounts.

Accounts and Records - Information Systems Controls (Page 7): It is recommended that the Society review the recommendations made regarding its information systems and make appropriate changes to strengthen its controls.

Comments on Financial Statement Items – Bonds and Stocks – (Page 12): It is recommended that the Society record permanent impairments in accordance with SSAP No. 5.

Comments on Financial Statement Items – Contract Claims – (Page 12): It is recommended that the Society accurately report all of its contract claims payable.

Previous Report of Examination

Comments on Financial Statements Items - Bonds, Preferred Stocks, Common Stocks and Short-Term Investments: It was recommended that the Society comply with California Insurance Code (CIC) Section 1104.9 by assuring that its securities are on deposit with a qualified custodian. The Society has moved its' securities to a qualified custodian and is now in compliance.

ACKNOWLEDGEMENT

The cooperation and assistance extended by the Society's officers and employees are acknowledged.

Respectfully submitted,

/S/

Jennifer Whitehurst, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California